

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AQUA ILLINOIS, INC.)	
f/n/a Consumers Illinois Water Company)	
)	Docket No. 04-0362
)	
Petition for the Issuance of a Certificate of)	
Public Convenience and Necessity to Operate)	
A Water Supply and Distribution System in)	
Champaign County, Illinois; and for the)	
Issuance of an Order Approving Rates,)	
Accounting Entries and Tariff Language.)	

REVISED

Rebuttal Testimony of

MICHAEL D. BRATETIC

Vice President and Division Manager

On Behalf of
Aqua Illinois, Inc.

February 17, 2005

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I. INTRODUCTION

Q. Please state your name, position and business address.

A. My name is Michael D. Bratetic. I am Vice President of Finance for Aqua Illinois, Inc.
My business address is 1000 S. Schuyler Avenue, Kankakee, Illinois 60901.

Q. Have you previously submitted testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to comment on and rebut certain portions of the journal entries proposed by Staff witness Ms. Mary Everson as well as the entries' impacts on original cost and forecasted revenues. I will also respond to Ms. Everson's proposal for Aqua to file final accounting entries with the Commission within six months of closing the Philo acquisition.

II. STAFF'S PROPOSED JOURNAL ENTRIES

Q. Would you please describe generally the adjustments Ms. Everson proposes?

A. Yes. Ms. Everson proposes journal entries to accomplish five main adjustments:

1. Record the purchase initially to Account 104, Water Utility Plant Purchased (Staff JE#1);
2. Remove \$48,045 of expenses referenced as tank painting from Account 330, Distribution Reservoirs & Standpipes (Staff JE #2);
3. Remove \$491,538 from Utility Plant by recharacterizing the amount as Contributions in Aid of Construction ("CIAC") (Staff JE #2);
4. Recalculate the Acquisition Adjustment based on Staff's proposed adjustments set forth in points 2 and 3 herein (Staff JE #2 and 3); and
5. Remove \$38,443.98 from Account 330, Distribution Reservoirs and Standpipes and make an offsetting entry to account 108, Accumulated Depreciation, to recognize the retirement of the West Water Tank (JE #4).

As noted, Staff accomplishes these five adjustments through Staff's journal entries #1 through #4. Staff also presents a summary of these journal entries as journal entry #5.

Q. Do you agree with any of Staff's journal entries?

A. Yes. I agree with Staff's first adjustment (JE #1) to record the purchase initially to Account 104, Water Utility Plant Purchased and Staff's fifth adjustment (JE #4) to recognize the retirement of the West Water Tank. I disagree with the remainder of Staff's adjustments and, therefore, the remainder of Staff's journal entries.

Q. Please discuss Staff's second adjustment, recorded in Staff JE #2, of \$48,054 to Account 330 Distribution Reservoirs & Standpipes and related adjustment of \$13,560 to Account 108 Accumulated Depreciation - Distribution Reservoirs & Standpipes.

A. As explained in the Rebuttal Testimony of Mr. Gerard P. Connolly, even though the Village of Philo listed three expenses totaling \$48,054 as "tank painting projects," it is more likely the expenses were for tank improvements and repairs that are allowed at original cost. Therefore, Staff's adjustment of \$13,560 for Account 108 Accumulated Depreciation - Distribution Reservoirs & Standpipes (ICC Staff Exhibit 2.0, Schedule 2.2, Page 2) and Staff's adjustment of \$48,054 for Account 330 Distribution Reservoirs & Standpipes (ICC Staff Exhibit 2.0, Schedule 2.2, Page 1) should not be made.

Q. Why do you disagree with Staff's third adjustment, recorded in Staff JE #2, to re-characterize \$491,538 of plant as CIAC and the related adjustment of \$115,530 as Accumulated Amortization of CIAC?

A. Aqua witness Mr. David R. Monie explains in his Rebuttal Testimony that he did not include any plant constructed from CIAC funding in the Original Cost Study he

performed. Therefore, Staff's adjustment of \$491,538 for CIAC (ICC Staff Exhibit 2.0, Schedule 2.3, Page 1) and related adjustment of \$115,530 for Accumulated Amortization of CIAC (ICC Staff Exhibit 2.0, Schedule 2.3, Page 2) should not be made.

Q. Please discuss Staff's fourth adjustment, recorded in Staff JE # 2 and 3, of \$68,085 to Account 114 Utility Plant Acquisition Adjustment.

A. Staff recalculates the Acquisition Adjustment solely to recognize Staff's adjustments for expenses referenced as tank painting and CIAC. Because the adjustments for the expenses referenced as tank painting and CIAC should not be made, the \$68,085 to Account 114 Utility Plant Acquisition Adjustment (ICC Staff Exhibit 2.0, Schedule 2.4, Page 1) should not be made either.

Q. Is Staff's summary journal entry (Staff JE #5) correct?

A. No. Staff's summary journal entry is erroneous because the detailed entries discussed above (JE #2 and #3) that form the basis for the summary are not correct.

Q. Are you submitting a revised Company Journal Entry with your Rebuttal Testimony?

A. Yes. I have attached hereto as Attachment R-2.1 Revised a summary journal entry, in Staff's format, that reflects all the above proposals. In particular, my summary journal entry attached hereto reflects acceptance of Staff's first and fifth adjustments and the rejection of Staff's second, third and fourth adjustments.

III. ORIGINAL COST

Q. Please describe Staff's adjustment to Original Cost.

A. Staff proposes to reduce Aqua's Original Cost determination by the \$48,054 in expenses referenced as tank painting. (Staff Ex. 2.0, p. 3, Sch. 2.5 (citing Sch. 2.2, p. 1 as source)).

Q. Should the Commission make this adjustment?

A. No. As noted above, Aqua witness Mr. Connolly explains in his Rebuttal Testimony that Staff's adjustment of the expenses referenced as tank painting should not be made. As a result, Staff's adjustment to Original Cost should not be made either.

Q. Do any of Staff's other adjustments impact Original Cost improperly?

A. Yes. As noted above as well as in the Rebuttal Testimonies of Mr. Connolly and Mr. Monie, Staff incorrectly seeks to re-characterize a substantial amount of plant in Aqua's Original Cost Study as CIAC. Because rate base is determined from Net Original Cost (equal to total Original Cost less Depreciation less CIAC), Staff's erroneous adjustment would impact incorrectly Net Original Cost and, thus, rate base, as discussed below. It is especially important that the Commission not make this erroneous adjustment given its substantial size of \$491,538.

Q. Are there any recent adjustments to rate base that affect the journal entries?

A. Yes. As Mr. Monie's Revised Rebuttal Testimony addresses, the original cost study did not contain the NIWC Connection main. Therefore, rate base has been increased by \$262,918.

Q. How does this adjustment to rate base affect the journal entries as stated above?

A. The increase to rate base also increases the acquisition adjustment as shown on my Revised R-2.1. This increases the acquisition adjustment as well as the depreciation expense and lowers the rate of return on rate base.

IV. FORECASTED REVENUES

Q. Please describe Staff's forecasted revenue analysis.

A. Aqua witness Mr. Connolly prepared a forecasted revenue analysis set forth as Second Revised GPC Exhibit 1 to his Direct Testimony. Staff witness Ms. Everson prepared alternative forecasted revenue requirement schedules. Staff witness Mr. Luth assesses the reasonableness of including Philo in the Vermilion Division's rates under both Aqua's and Staff's analyses.

Q. Should Staff's analysis be utilized for purposes of making such a determination?

A. No, because Staff's analysis is not correct.

Q. Please explain.

A. Staff makes adjustments to the rate base aspect of the revenue requirement that cause Staff's analysis to be erroneous. In particular, Staff adjusts rate base for CIAC (and related amortization) and the expenses referenced as tank painting. (Staff Ex. 2.0, p. 11). As explained above as well as in the Rebuttal Testimonies of Aqua witnesses Mr. Connolly and Mr. Monie, Staff's adjustments for both of these items are erroneous. Ms. Everson's incorporation of these adjustments to rate base cause her revenue forecast analysis to be erroneous for the same reasons.

Q. What is your recommendation?

A. The Commission should utilize Aqua's revenue forecast analysis, which does not incorporate Staff's erroneous adjustments, to assess the reasonableness of including Philo in Aqua's Vermilion Division.

V. FINAL JOURNAL ENTRIES

115 **Q. Ms. Everson recommends the Company file final journal entries within six months**
116 **of the date the acquisition is closed. Would you please respond?**

117 **A.** Aqua agrees to make this filing.

118 **Q. Ms. Everson also states Aqua should record the annual amortization of the**
119 **acquisition adjustment in Account 426, Miscellaneous Non-Utility Expense for a**
120 **period of 10 years. Does Aqua agree to do so?**

121 **A.** No. Ms. Everson's proposal is the result of Staff using an incorrect rate base that causes a
122 positive acquisition adjustment. However, based upon Dave Monie's original cost of the
123 Philo water system versus the purchase price of the system, the acquisition adjustment
124 will be negative. Therefore, as stated in my direct testimony, USOA accounting
125 instruction 21 provides that the original entry to record the purchase should be to Account
126 104-Utility Plant Purchased or Sold. Account 104 is then cleared to the individual plant
127 accounts, such as account 121-Non-Utility Property.

128 **VI. CONCLUSION**

129 **Q. Does this conclude your Rebuttal Testimony?**

130 **A.** Yes, it does.